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Docket No. R-1181
Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20* Street and Constitution Avenue, NW
Washington DC 20551

March 4, 2004

Dear Officials of Federal Bank and Thrift Agencies:

As a member of the National Community Reinvestment Coalition, TELACU Community Capital urges you to Withdraw the proposed changes to the Community Reinvestment Act (CRA) regulations. CRA has been instrumental in increasing access to homeownership, boosting economic development, and expanding small businesses in the nation's minority, immigrant, and low- and moderate-income communities. Your proposed changes are contrary to the CRA statute because they will halt the progress made in community reinvestment.

The proposed CRA changes will thwart the Administration's goals of improving the economic status of immigrants and creating 5.5 million new minority homeowners by the end of the decade. Instead, the proposed CRA changes would facilitate predatory lending and reduce the ability of the general public to hold financial institutions accountable for compliance with consumer protection laws.

The proposed changes include three major elements: 1) provide streamlined and cursory exams for banks with assets between $250 million and $500 million; 2) establish a weak predatory lending compliance standard under CRA; and 3) expand data collection and reporting for small business and home lending. The beneficial impacts of the third proposal are overwhelmed by the damage imposed by the first two proposals. In addition, the federal banking agencies did not update procedures regarding affiliates and assessment areas in their proposal, and thus missed a vital opportunity to continue CRA's effectiveness.

Streamlined and Cursory Exams. Under the current CRA regulations, large banks with assets of at least $250 million are rated by performance evaluations that scrutinize their level of lending, investing, and services to low- and moderate-income communities. The proposed changes will eliminate the investment and service parts of the CRA exam for banks and thrifts with assets between $250 and $500 million. The proposed changes would reduce the rigor of CRA exams for 1,111 banks that account for more than $387 billion in assets.

The elimination of the investment and service tests for more than 1,100 banks translates into considerably less access to banking services and capital for underserved communities. For example, these banks would no longer be held accountable under CRA exams for investing in Low Income Housing Tax Credits, which have been a mjor source of affordable rental housing needed by large numbers of immigrants and lower income segments of the minority population. Likewise, the banks would no longer be held accountable for the provision of bank branches, checking accounts, Individual Development Accounts (IDAs), or debit card services. Thus, the effectiveness of the Administration's housing and community development programs would be diminished. Moreover, the federal bank agencies will fail to enforce CRA's statutory requirement that banks have a continuing and affirmative obligation to serve credit and deposit needs if they eliminate the investment and service test for a large subset of depository institutions.

Predatory Lending Standard. The proposed CRA changes contain an anti-predatory screen that will actually perpetuate abusive lending. The proposed standard states that loans based on the foreclosure value of the Collated, instead of the ability of the borrower to repay, can result in downgrades in CRA ratings. The asset-based standard falls short because it will not cover many instances of predatory lending. For example, abusive lending would not result in lower CRA ratings when it strips equity without leading to delinquency or foreclosure. In other words, borrowers can have the necessary income to afford monthly payments, but they are still losing wealth as a result of a lender's excessive fees or unnecessary products.

CRA exams will allow abusive lending if they contain the proposed anti-predatory standard that does not address the problems of the packing of fees into mortgage loans, high prepayment penalties, loan flipping, mandatory arbitration, and other numerous abuses, Rigorous fair lending audits and severe penalties on CRA exams for abusive lending are necessary in order to ensure that the new minority homeowners served by the Administration are protected, but the proposed predatory lending standard will not provide the necessary protections. In addition, an anti-predatory standard must apply to all loans made by the bank and all of its affiliates, not just real-estate secured loans issued by the bank in its "assessment area" as proposed by the agencies.

By shielding banks from the consequences of abusive lending, the proposed standard will frustrate CRA's statutory requirement that banks serve low- and moderate-income communities consistent with safety and soundness.

Enhanced data disclosure. The federal agencies propose that they will publicly report the specific census tract location of small businesses receiving loans in addition to the current items in the CRA small business data for each depository institution. This will improve the ability of the general public to determine if banks are serving traditionally neglected neighborhoods with small business loans. Also the regulators propose separately reporting purchases from loan originations on CRA exams and separately reporting high cost lending (per the new HMDA data requirement *starting* with the 2004 data).

The positive aspects of the proposed data enhancements do not begin to make up for the significant harm *caused* by the first two proposals. Furthermore, the federal agencies are not utilizing the data enhancements in order to make CRA exams more rigorous, The agencies must not merely *report* the new data on CRA exams, but must use the new data to provide less weight on CRA exams to high cost loans than prime loans and assign lass weight for purchases than loan originations.

<u>Missed Opportunity to Update Exam Procedures</u>: The agencies also failed to close gaping loopholes in the CRA regulation. Banks can still elect to include affiliates on CRA exams at their option. They can thus manipulate their CRA exams by excluding affiliates not serving low- and moderate-income borrowers and excluding affiliates engaged in predatory lending. The game playing with affiliates will end only if the federal agencies require that all affiliates be included on exams. Lastly, the proposed changes do not address the need to update assessment areas *to* include geographical areas beyond bank branches, Many banks *make* considerable portions of their loans beyond their branches; this non-branch lending activity will not be scrutinized by CRA exams.

The proposed changes to CRA will directly undercut the Administration's emphasis *on* minority homeownership and immigrant access to jobs and banking services. The proposals regarding streamlined exams and *the* anti-predatory lending standard threaten CRA's statutory purpose of the safe and sound provision of credit and deposit services. The proposed data enhancements would become much more meaningful if the agencies update procedures regarding assessment areas, affiliates, and the treatment of high cost loans and purchases on CRA exams. CRA is simply a law that makes capitalism work for all Americans. CRA is too vital to be gutted by harmful regulatory changes and neglect. Thank you for your attention to this critical matter.

Sincerely,

Maria Riddle

cc:

National Community Reinvestment Coalition
President *George* W. Bush
Treasury Secretary John W. Snow

TELACU Community Capital

MISSION STATEMENT

A self-sufficient non-profit public benefit corporation that provides needed access to capital for small businesses located in low-to-moderate income communities of Los Angeles and Orange Counties.

CORE PROGRAMS

- **Economic Development Lending**

  - **Revolving Loan Fund (RLF)** - fimded in 1981 by the U. S. Department of Commerce, Economic Development Administration (EDA). This loan fund provides financing to businesses located in the Greater East Los Angeles Special Impact Area. (SIA), an area characterized by deteriorated commercial/retail space and little capital investment which results in chronic unemployment. Loans range in size from $20.000 to $100,000.

  - **Financial Restructuring Assistance Program (FRAP) RLF** - funded in 1995 by the U.S. Department of Commerce Economic Development Administration (EDA) after the 1994 Northridge Earthquake. This program focuses on job creation and economic development under circumstances of Presidential Declared disasters and for disaster mitigation. Loans must be located in the City of Los Angeles. However. loans may be made outside the City within Los Angeles County with the concurrence of the county government. Loans range in size from *$50.000* to $750.000.

  - **Small Business Loan Fund** (SBLF) – launched in December 2001 with $150,000 seed capital from TELACU. TCC's parent corporation. the Small Business Loan Fund is funded by local financial institutions that have partnered with TELACU Community Capital to provide small business loans to businesses located in low-income areas of Los Angeles County. Santa Ana and Anaheim. Loans range in size from $20,000 to $350,000.

- **Business Management** Workshops – Designed for existing small businesses, these "financial literacy'' workshops provide business owners with the tools needed to be a successful business manager and loan candidate. Two workshops are offered in either Spanish or English: Business Evaluation and Business Financial Management.

PRIMARY COMMUNITIES SERVED:

Southeast Los Angeles County: Includes the Greater East Los Angeles CEDS area which consists of 69 contiguous census tracts that comprise the City of Commerce, portions of the Cities of Los Angeles, Montebello, Monterey Park, the unincorporated area of East Los Angeles County, and the Cities of Diamond Bar, La Verne, Pomona. and San Dimas. This area's total population is 392.514. Unemployment rate is 6.63%. Median Income is $39,504. Fifty-three percent of population is between the ages of 18-44; Ethnic Breakdown is Hispanic (69.2%), Asian Pacific Islander (11.6%) and Black (3.9%) *Source: Greater East Los Angeles Comprehensive Economic Development Strategy, 2002 update* In addition, TCC also serves the geographic area located south of the San Bernardino Freeway and east of the 710 Freeway.

Santa Ana/Anaheim Metropolitan Area: Comprised of *52* contiguous census tracts that include the City of Santa Ana. Anaheim. and certain sections of Fullerton. Overall geographic makeup of the City of Santa Ana and Anaheim respectively is: Total Population is 317.700 and 310,654; Ethnic Breakdown is Hispanic (76.29% & 38%). Asian Pacific Islander (10.41% & 10.44) and Black (1.67% & 2.59%). Median Income is $37.066 & *$42,659: Source: MCIC Orange County TCC Investment Profiles and City Web Sites.*

LOAN ACTIVITY AND ECONOMIC IMPACT (as of 12/31/03)

- **Total** direct lending activity: **$9,751,750**
- **Total** funds leveraged through co-lending transactions: **$16,751,486**
- **Total loans made:** ***55***
- **Funds committed: $500,000**
- **Total** jobs created/saved: ***1125***
- Percentage *of* loans to minority owned borrowers: **75%**
- Percentage *of* loans to women owned businesses: **13%**
- **Total number** participants in the Business Management Workshops; ***90***

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TCC HISTORY

- **1981** - TELACU Revolving Loan Fund established to provide loans to businesses located in the Greater East Los Angeles Special Impact Area (SIA).
- **1994** - TELACU FRAP established to provide financial assistance to businesses impacted by the Northridge Earthquake. Criteria was expanded to include loans in the recovery from other Presidential declared disasters and disaster mitigation.
- **1999** - TELACU Community Capital (TCC) is incorporated as a 501(c) 3 public benefit corporation. TCC becomes a Microloan Intermediary for The Los Angeles Community Development Bank (LACDB)
- 2000 - TCC is certified as a California Finance Lender and Broker.
- **2001** - TCC receives $75,000 CDFI Technical Assistance grant from the U.S. Department of Treasury. TCC Small Business Loan Fund is established with $150,000 capital grant from TELACU.
- 2002 - TCC becomes the successor to TELACU EDA FRAP and RLF economic development loan programs. TCC is certified as a Community Financial Development Institution (CDFI).
- **2003** - TCC officially launches the Small Business Loan Fund, with debt capital provided by Contributing Lenders

TCC PROFILE

- Certified California Finance Lender and Broker. California Department of Corporations
- Certified Community Development Financial Institution (CDFI), U.S. Treasury Department
- Certified Community Development Financial Institution (CDFI), State of California COIN
- California Capital Access Program (CalCAP) Qualified Lender
- Community Partner. California Economic Development Lending Initiative (CEDLI)
- Member. Association for Enterprise Opportunity, (AEO), California Association for Microenterprise Opportunity (CAMEO), California Community Economic Development Association (CCEDA), California Community Reinvestment Committee, (CRC), National Community Capital Association, National Community Reinvestment: Committee (NCRC)
- Member. Boyle Heights Chamber of Commerce. ELA Chamber of Commerce, Los Angeles Chamber of Commerce, Orange Corny Business Council Economic Development Advisory Group, Orange County Hispanic Chamber of Commerce. Latin Business Association

FUNDING SOURCES

- Economic Development Administration (EDA) - U. S. Department of Commerce
- Community Development Financial Institution (CDFI) - U.S. Department of the Treasury
- The East Los Angeles Community Union (TELACU)
- The Los Angeles Community Development Bank (1999-2000)
- Small Business Loan Fund Contributing Lenders –Citibank, Comerica Bank, HSBC Bank. Manufacturers Bank, Mellon 1st Business Bank. Nara Bank. Pacific Western National Bank. Wilshire State Bank, and US Bank
- Other Funders- Cititgroup Foundation. First Republic Bank, DaimlerChrysler, Union Bank

FOR MORE INFORMATION CONTACT: Mari Riddle, Executive Director

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